Fitch Affirms Federal Realty Trust's IDR at 'A-'; Outlook Stable

Fitch Ratings - New York - 26 March 2019: Fitch Ratings has affirmed Federal Realty Investment Trust's (NYSE: FRT) Long-Term Issuer Default Rating (IDR) at 'A-'. The Rating Outlook is Stable. A full list of rating actions follows at the end of this release. The ratings reflect the company's high quality real estate portfolio, track record of infill (re)development and access to several sources of capital on a market-leading basis. Other strengths include financial flexibility stemming from a sizable unencumbered pool and a conservative dividend payout ratio. Partially offsetting these strengths are concerns surrounding the secular shift in retail distribution towards e-commerce and Omni-channel retailing and asset concentration and geographic concentrations within Federal's portofolio.

Key Rating Drivers

Long-term Investment Strategy: Fitch views as positives Federal's strategy to develop, selectively buy and hold premier retail and mixed use investments in supply-constrained markets with strong demographics. This strategy has enabled Federal to produce a robust operating performance that has historically been stronger and more stable - through the cycle - than the retail real estate market generally and public shopping center REIT peers specifically. As of Dec. 31, 2018 FRT's largest exposure is to the retail sector representing approximately 80% of ABR, which includes restaurants at 13%, followed by multifamily at 11% and office at 9%.

Improved Core Metrics: Fitch expects Federal's leverage (net debt, excluding preferred stock, to recurring operating EBITDA) to sustain in the 5.0x - 5.5x range. Leverage was 5.3x for the year ended Dec. 31, 2018 down from 6.0x for year-end 2017, as the company leased larger redevelopments and sold condominium units. Federal has historically managed leverage at levels ranging between the mid-4x and mid-5x range.

Net debt, when including 50% of the company's Series C and Series 1 preferred shares, increases slightly to 5.4x for the year ended Dec. 31, 2018. Fitch expects SSNOI growth, the stabilization of the company's in progress mixed-use developments and interest savings from debt refinancing to result in fixed charge coverage (FCC) sustaining in the high-3x range through the forecast period, which is strong for the rating.

Moderate Same Store NOI Growth: Over the past four years, in a disruptive retail environment, Federal's SSNOI growth figures have averaged 2.0%; SSNOI growth was 3.1% for the year ended Dec. 31, 2018, up from 0.7% in 2017 and 1.9% in 2016 (the 2018 same-store growth figure includes some properties under redevelopment). Fitch expects FRT's SSNOI to sustain in the 2.0% - 2.5% range.

Federal's strong rent growth on expiring leases (23% renewal GAAP lease spread for the year ended Dec. 31, 2018) largely reflects the high-quality infill locations of its properties, although this has, since 2015, been offset by an increasing amount of tenant inducements for new and existing tenants.

Increased Capex: Most retail REITs have increased capital expenditure spending on their existing properties in order to meet the competitive threat from e-commerce retail platforms - capital expenditure spending on properties includes costs related to property maintenance and re-tenanting. Over the last two years, FRT's capital expenditures, including maintenance capex and tenant improvement concessions, have risen relative to historical expenditures. Fitch expects FRT's ongoing total capex to be in the $80 million range, commensurate with the peak level seen in 2017.

Granular and Diversified Tenant Base: The company's largest tenants are retailer The TJX Companies and grocer Ahold Delhaize representing 2.7% and 2.4% of ABR as of Dec. 31, 2018, respectively; the top 25 tenants represent a low 27.2% of total ABR at Dec. 31, 2018. Top Individual tenant exposures of less than 3% are rare in the retail REIT universe, attesting to the granularity of FRT's tenant base. Based on credit ratings, FRT's tenant quality is considered good relative to peers.

Asset and Geographic Concentration: The portfolio's asset and market concentrations are credit concerns. Federal's three largest properties represent approximately 29% of FRTs total portfolio on a cost basis. The company's largest asset, Santana Row, representing roughly 12% of FRT's portfolio on a cost basis at Dec. 31, 2018, is an upscale mixed-use property consisting of retail, office, residential and lodging space located in West San Jose, CA. Assembly Row in the Boston Metro area and Pike & Rose in the DC Metro area, both mixed use projects, represent the two other large assets in the FRT portfolio. Redevelopment projects in progress are poised to push the exposure from the three properties to in excess of 30% of FRT's portfolio upon completion.

Over half of Federal's NOI comes from two metro areas, the Washington, D.C. Metro area representing 36% and the San Francisco Bay area representing 16%. Both metro areas are highly desirable in terms of their economic drivers which center around technology for San Francisco and government for Washington, D.C. Both metros also have supply constrains due the infill nature of their urban cores and surrounding areas and due to local government restrictions and regulations surrounding commercial development.

Strong Contingent Liquidity: Fitch estimates that unencumbered assets cover net unsecured debt (UA/UD) by 3.0x, assuming a stressed 7% capitalization rate, Fitch's lowest applied cap rate in the retail sector. Fitch's stressed cap rate for Federal incorporates the high quality of Federal's unencumbered asset pool which includes the company's three most valuable properties Santana Row, Pike & Rose and Assembly Row. The company's strong contingent liquidity is an important ratings consideration.

Stable Outlook: The Stable Outlook reflects Fitch's expectation that Federal's credit profile will remain appropriate for the 'A-' rating through economic cycles, barring any significant changes in the company's capital structure or financial policies. The Stable Outlook reflects the quality of management and consistency of cash flows resulting in credit metrics appropriate for the 'A-' rating. Further, Federal maintains access to several sources of capital on a market-leading basis and maintains a strong unencumbered asset base and liquidity profile.

Derivation Summary

Federal has the highest portfolio quality in the shopping center REIT universe as measured by sector-leading in place rents, leasing spreads and portfolio demographics justifying its higher rating relative to those of Kimco Realty Corp. (BBB+/Stable), SITE Centers Corp. (BBB/Stable) and Brixmor Property Group Inc. (BBB-/Stable). The company has historically maintained credit metrics commensurate with its highest Fitch-rated REIT peers including Simon Property Group (A / Stable) and Camden Property Trust (A- / Stable).

Key Assumptions

Fitch's Key Assumptions Within Its Rating Case for the Issuer
-- SSNOI growth of 2-3% through 2021;
-- Approximately $300 million in (re)development expenditures / deliveries in 2019, $200-300 million annually thereafter, at mid-6% yield.
-- $0 net acquisitions through 2021 -- Secured and unsecured debt maturities refinanced with a total of

approximately $100 million in net debt proceeds annually through 2021.
-- $130 million of equity issuance in 2019 under ATM, no further issuance assumed thereafter.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
--Fitch's expectation of net debt to recurring operating EBITDA sustaining below 4.5x (leverage was 5.3x for the year ended Dec. 31, 2018);
--Fitch's expectation of REIT fixed charge coverage sustaining above 3.5x (coverage was 4.0x for the year ended Dec. 31, 2018);
-- Reduction in asset / geographic concentrations with no one asset representing more than 10% of gross assets / NOI and no geographic market representing more than 25% of NOI.

Developments That May, Individually or Collectively, Lead to Negative Rating Action
--Fitch's expectation of net debt to recurring operating EBITDA sustaining above 5.5x;
--Fitch's expectation of REIT fixed charge coverage sustaining below 2.5x.
--Unencumbered asset coverage of unsecured debt below 2.5x;
--Deterioration in operating fundamentals or asset quality (e.g. sustained weakness or volatility in SSNOI results and or corporate earnings growth);
--Deterioration in the company's access to capital on an absolute or relative basis.

Liquidity and Debt Structure

Adequate Liquidity Ratio: FRT's current liquidity ratio is adequate for its rating, but capital needs for the company's significant redevelopment pipeline continue to pressure the ratio. Fitch estimates Federal's sources of liquidity (unrestricted cash, availability under its revolving credit facility and estimated retained cash flow from operating activities) cover its uses (debt maturities, committed development expenditures and estimated maintenance capital expenditures) by 1.2x for the period Jan. 1, 2019 through Dec. 31, 2020. If assuming 80% refinancing of secured debt, the ratio improves slightly to 1.3x.

FRT's access to a diverse set of debt and equity capital sources is a key component of Federal's financing strategy and the company's 'A-' rating. Federal has historically enjoyed excellent access to capital as evidenced by its ability to issue equity, unsecured bonds, secured debt, and bank debt during a challenging capital markets environment in 2009.

AFFO Payout Ratio: Federal's payout ratio has been between 75% - 85%, which is in line with the REIT sector median. The company was able to retain over $90 million in 2018, which adds to the financial flexibility of an entity with strong capital access.

Summary of Financial Adjustments

--Fitch has adjusted recurring operating EBITDA for stock-based compensation and certain non-recurring or non-cash items.
--Fitch considers the preferred securities to be 50% debt for select credit ratios. Certain metrics calculate leverage before preferred stock, including REIT Leverage.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR

Federal Realty Investment Trust	LT IDR A- ⭘ Affirmed		A- ⭘
senior unsecured	LT A- Affirmed		A-
preferred	LT BBB Affirmed		BBB

Additional information is available on www.fitchratings.com

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Applicable Criteria

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)
Corporate Hybrids Treatment and Notching Criteria (pub. 09 Nov 2018)
Corporate Rating Criteria (pub. 19 Feb 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

UNSOLICITED ISSUERS

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Federal Realty Investment Trust	-	Long Term Issuer Default Rating	Unsolicited
Federal Realty Investment Trust Series C $150mln 5.0% preferred stock	-	Long Term Rating	Unsolicited
Federal Realty Investment Trust Series 1 USD 10 mln 5.417% preferred stock/security	-	Long Term Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Federal Realty Investment Trust USD 250 mln 2.55% bond/note 15-Jan-2021	US313747AW72	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 250 mln 3% bond/note 01-Aug-2022	US313747AS60	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 275 mln 2.75% bond/note 01-Jun-2023	US313747AT44	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 300 mln 3.95% bond/note 15-Jan-2024	US313747AU17	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 50 mln 7.48% bond/note 15-Aug-2026	US313747AF40	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 475 mln 3.25% bond/note 15-Jul-2027	US313747AY39	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 40 mln 6.82% bond/note 01-Aug-2027	US313918AA22	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 550 mln 4.5% bond/note 01-Dec-2044	US313747AV99	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 250 mln 3.625% bond/note 01-Aug-2046	US313747AX55	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 800 mln Floating LIBOR 0.011% revolving credit facility 20-Apr-2020	-	Long Term Rating	Unsolicited
Federal Realty Investment Trust USD 275 mln term loan 21-nov-2019 ser senior unsecured	-	Long Term Rating	Unsolicited
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